Inside Secure announces Q3 2018 revenue

- 9 months 2018 revenue, up 22% vs. 2017 at $31.6 million
- Q3 2018 revenue at $9.1 million
- +43%: year-on-year growth in license revenue in Q3 2018 to $4.3 million
- 2018 objective:
  - Top line growth more than offsetting the anticipated decline of a U.S. customer
  - Continuously monitoring operating expenses while investing in future growth

Aix-en-Provence, France, October 18, 2018 – Inside Secure (Euronext Paris: INSD), at the heart of security solutions for mobile and connected devices, is today reporting its revenue for the third quarter period ended September 30, 2018. Figures for 2018 and 2017 have been prepared in accordance with IFRS 15 “Revenue from Contracts with Customers” since company opted in 2017 for an early adoption of IFRS 15 (see appendix hereof).

Commenting on these results, Amedeo D’Angelo, chairman and chief executive officer of Inside Secure, stated:

“Our company has again delivered a very robust set of performances this quarter, in spite of an expected unfavourable base effect on a year-on-year comparison.

We have leveraged again very positive market dynamics this quarter, with revenue growing both from existing and new customers and across all our portfolio of products. Demand for our proven software security solutions, offering shorter time-to-market, is getting more and more traction in the context of a global shift to software and cloud-based security solutions.

License revenue growth has remained very strong again this quarter, driven by new design wins to bring security into IoT and the Automotive industry and leveraging our expertise in Silicon IP and code protection tools. Well positioned to address those needs as a pure player offering high end software-based solutions, we will continue to invest in innovation and in further growth moving forward, while monitoring very carefully our operating expenses for long term profitability.

All in all, our teams have delivered consistently over the first nine months of this year, bringing new customers and diversifying our revenue base, and top line revenue growth in 2018 overall should more than offset the anticipated decline of a historical U.S. customer.”
Q3 2018 revenue

Revenue in Q3 2018 was $9.1 million, down 21 percent from the third quarter of 2017 which benefited from a particular strong base effect driven by exceptionally high royalties revenues from a historical U.S. customer in the defense industry. Contribution from this customer was nil in Q3 2018 and the Company does not expect any more royalty revenue from this customer going forward. Excluding contribution of this customer, year-on-year revenue growth from the core secure software and silicon IP business was up 18 percent in Q3 2018.

This quarter, the Company has continued to reap the benefit of investing in sales development, up-selling its customers while leveraging strong market dynamics in most segments, with in some cases faster recognition of revenue due the implementation of IFRS 15.

In Q3 2018, license revenue was $4.3 million, up 43 percent compared with third quarter of 2017 and royalties revenue was $3.3 million. Revenue from maintenance and other agreements in Q3 2018 was $1.5 million, in line with Company’s revenue growth and expectations.

This quarter, revenue was generated with both new customers and existing customers signing for new projects, demonstrating the right portfolio of products to support customers’ demanding security challenges and help them accelerate time-to-market.

On data centers and IoT markets, the Company continued to close new design wins, notably on Silicon IP and network security solutions. As an example, Inside Secure robust and standards compliant authentication, confidentiality and data integrity software (IPsec toolkit) was chosen by a leading company to help securing its 5G network infrastructure products.

In the Automotive industry, the Company was also particularly successful in closing new deals, notably leveraging its code and application protection products for car key mobile applications.

In the Entertainment industry, the Company succeeded in renewing several agreements with existing customers to cover video-on-demand applications while keeping on investing into new highly secure content protection solutions to further secure its customers’ revenue. It announced the release of advertising protection solutions to help OTT\(^1\) content providers preventing online advertising revenue loss.

9 months 2018 revenue

Consolidated revenue (IFRS)

In the first nine months of 2018, total revenue of the Company was $31.6 million, up 22 percent compared with 2017 despite the anticipated significant reduction in contribution of the U.S. customer in the defense industry.

Core business revenue

Revenue from the secure software and silicon IP business amounted to $29.8 million for the first nine months of 2018, up 15 percent compared with 2017 thanks to strong increase in license revenue, and, to a lesser extent, in maintenance and other services. Excluding contribution of the U.S. customer in the defense industry, year-on-year revenue growth from the core secure software and silicon IP business was up 32 percent for the period.

In 2018, the Company kept on diversifying its revenue base; the top 10 customers represented 53% of revenue in the first nine months of 2018, against 72% in 2017.

License revenue for the first nine months of 2018, was $10.9 million, up 38 percent from the previous year, leveraging strong sales activity with both existing and new customers across all its product lines. The Company was particularly active to sell and implement its solutions in Silicon IP and Application

\(^1\) Over the top (OTT) – distribution of streaming media as a stand-alone product directly to viewers over the Internet, bypassing telecommunications, multichannel television, and broadcast television platforms that traditionally act as a controller or distributor of such content.
Protection products in growing markets such as network equipment, IoT (including automotive) and Financials (mobile banking & payment).

For the first nine months of 2018, revenue from royalties was quite stable at $14.6 million (+1% year-on-year growth) and revenue from maintenance and other agreements was $4.2 million, up 18% from the previous year.

NFC patent licensing program

During the period, the Company recorded $1.8 million revenue from its NFC patent licensing program thanks to a new license signed in Q2 2018 by France Brevets which manages the program.

Business outlook for 2018

Based on the performance in first nine months of 2018, the Company confirms top line growth in 2018, more than offsetting the anticipated decline of a U.S. customer which generated an exceptionally high level of revenue from royalties in the second half of 2017. The Company does not expect any more royalty revenue from this U.S. customer going forward.

The Company also confirms that it anticipates adjusted operating expenses in 2018 to be in the lower end of the previously communicated $36 million to $37 million range, before getting back to a normative EBITDA margin greater than 20 percent.

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About Inside Secure

Inside Secure (Euronext Paris – INSD) is at the heart of security solutions for mobile and connected devices, providing software, silicon IP, tools, services, and know-how needed to protect customers’ transactions, ID, content, applications, and communications. With its deep security expertise and experience, the company delivers products having advanced and differentiated technical capabilities that span the entire range of security requirement levels to serve the demanding markets of network security, IoT and System-on-Chip security, video content and entertainment, mobile payment and banking, enterprise and telecom. Inside Secure’s technology protects solutions for a broad range of customers including service providers, operators, content distributors, security system integrators, device makers and semiconductor manufacturers. For more information, visit www.insidesecure.com

Forward-looking statements

This press release contains certain forward-looking statements concerning the Inside Secure group. Although Inside Secure believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. Accordingly, the company’s actual results may differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the “Risk factors” section of the 2017 registration document filed with the French financial market authority (the Autorité des marchés financiers – the “AMF”) on April 10, 2018 under number D.18-0307, available on www.insidesecure-finance.com/

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2 Definition in appendix hereof
Supplementary non-IFRS financial information

Inside Secure uses supplementary non-IFRS financial measures. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of a strictly accounting nature, as presented in the Company's consolidated financial statements and the corresponding notes. The Company uses these indicators because it believes they are useful measures of its activity. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently to the Company, even though they use similar terms.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment losses not related to business combinations. Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations and divestiture carried out by the Company.

Implementation of IFRS 15

The revenue for the fiscal year 2017 and 2018 are prepared in accordance with IFRS 15 "Revenue from Contracts with Customers", which is mandatory from January 1, 2018. The Company had chosen to anticipate the implementation of the standard, in particular to be able to present a 2018 year directly comparable to 2017.

The implementation of IFRS 15 has modified some of the Company's revenue recognition principles:

Under IAS 18, revenues from development agreements were recognized using the percentage-of-completion method, which consists of recognizing revenue as development progresses. The percentage of completion up to completion was based on the actual costs incurred compared to the total estimated cost of the project. Under IFRS 15, income related to a contract must be recognized over time if certain criteria are met, including the fact that the Company has an enforceable right to payment of the value of the work carried out to date. If none of the criteria mentioned in the standard is met, revenue is recognized upon completion.

Given how actual contracts signed with the Company's customers are drafted, according to IFRS 15 the revenue must be recognized upon completion.

Royalties payable in relation with technology licensed to some of the Company's customers may be fixed and/or variable. According to the Company's policy to date, fixed royalties were recognized on a straight-line basis over the contractual periods. Variable royalties are generally based on sales by customers and are therefore by definition difficult to estimate. These fees were recognized on the basis of confirmations received from customers, generally in the quarter following the delivery of the products. According to IFRS 15, licenses sold by the Company correspond to a "right to use" the intellectual property as it exists on the date on which the license is granted, in which case the fixed royalties must be recognized immediately on the date from which the customer can begin to use the license. This leads to recognize revenue earlier than before. In the case of variable royalties, royalties must be recognized as revenue as they become due, on the basis of sales made by the customer, and not on the date of confirmation by the customer. The Company therefore now estimates the amount pending receipt of consumption confirmations.

The application of IFRS 15 generally leads to faster recognition of revenue compared to IAS 18.